13 May 2021

Off to the beach

Tourism and Europe's economic recovery

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Economics - Western Europe

- Upcoming EU and UK rule changes should bring back tourist travel in June…
- …but the success of the tourist season will depend on the vaccine rollout, ongoing restrictions and testing costs
- We assess the growth implications of tourism and possible upside risks from a faster recovery of the sector

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Looser travel rules are on the way

From June, tourists should be allowed to travel into and around the EU, if they have been vaccinated against, or tested negative for, COVID-19. Meanwhile, the UK – a key source of tourists – has announced a 'green list' of quarantine-free destinations (even if Portugal is the only EU country currently listed). These new rules may lead to a slightly earlier start to the tourism season than last year. And hopefully this time the easing will endure.

From a macro perspective, the stakes are high. Tourism is worth almost 15% of GDP in Spain and over 20% in Greece, with the majority of tourists coming from abroad, most significantly from the UK and Germany. Most come in the summer so, subject to the COVID-19 situation, the race is on to get the industry moving again.

How much of a recovery can we expect?

The tourism recovery will depend on several factors, including: the vaccine rollout; PCR test costs (for those not vaccinated); the COVID-19 caseload in destination countries; the situation in rival destinations including Turkey; and pent-up demand. The incomplete vaccine rollout – around half of German adults may be fully vaccinated by July, two-thirds in the UK – alongside high testing costs and lingering COVID-19 uncertainty might still discourage some from going abroad this year.

Therefore, our central case scenario, with takes into account near zero international tourism up to May, is that 2021 tourism flows to Southern Europe will be just about higher than in 2020, but still 50-60% below 2019 levels (from 60-75% last year).

A significant boost to growth in Southern Europe

Based on the current account data, we estimate that last year the drop in foreign tourists could have subtracted around 3ppts from GDP growth in Spain and Portugal, and 6ppts in Greece. This is likely to be a lower bound, as it does not account for the spill-over effects of tourism on domestic demand. Countries such as the UK and Germany otherwise benefitted, at least from a narrow trade perspective, as more people chose to spend their holidays in the country ('staycation').

This year, we think that tourism could contribute at least 1-2ppts to the GDP recovery in Southern European countries. Next year we expect a much bigger impact, which explains our higher GDP growth forecasts in 2022 than 2021. A quicker bounce-back of the sector could put upside risks to our growth forecasts this year, and also reduce the risks of economic scarring in the periphery economies, for example allowing a quicker re-integration of short-time workers and improving opportunities to deploy NGEU funds.

This is an abridged version of a report by the same title published on 13-May-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

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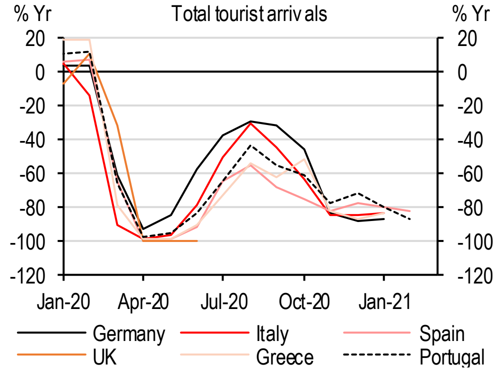
Looser travel rules are coming

Winter of discontent…

At a global level, the COVID-19 situation remains challenging, particularly in those regions with only nascent vaccine rollouts. But in Europe, infection rates are falling, the vaccine rollout is accelerating and restrictions are starting to ease.

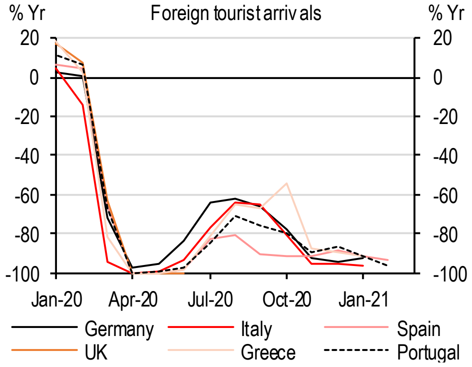
Against that improving European backdrop, EU and the UK have recently announced an upcoming loosening in non-essential travel restrictions, in a bid to get international tourism out of the severe depression it has suffered since the onset of COVID-19 (Charts 1 & 2).

1. European tourism remains highly depressed…



Source: Eurostat, HSBC

2. …with almost no international travel currently taking place



Source: Eurostat, HSBC

On 3 May, the European Commission published the following proposals for tourists entering the EU from June:

- Fully vaccinated people (14 days before arrival) from any country can enter the EU for non-essential travel, with member states having the option to forego testing requirements.
- Non-vaccinated people from a larger list of countries with a 'good epidemiological situation' can enter. However, those entering on this basis would still be subject to testing and, possibly, quarantine requirements.
- Children of vaccinated travellers can also enter, but would need to take a PCR test (the exact age has not been specified in the European Commission's statement).

Vaccinated or tested tourists should be able to travel to and within the EU from June…

We think it's reasonable to assume that member states will apply a broadly similar approach to intra-EU travel. Meanwhile, the UK – a major source of tourists for the rest of Europe – has announced a 'green list' of countries to which British tourists can travel from 17 May, without needing to self-isolate on return. Travellers will, however, need to take a pre-return 'lateral flow' test and a post-return PCR test.

…made glorious summer?

Given these rule changes – and subject to the COVID-19 backdrop and the expansion of the UK's 'green list' – vaccinated and PCR-tested tourists should be able to travel across Europe fairly freely from June onwards (while non-vaccinated people will need to take a pre-travel test).

…implying a slightly earlier reopening than last year, and hopefully more enduring

The hope is then, that Europe will have a better tourism season than it did last year. Granted, borders did reopen for some of last summer, and in some cases even without the need to take a negative test (Table 3). But this year, the reopening is set to start a little sooner. And hopefully the looser rules will endure through this year and next.

3. This year's tourism season will hopefully start sooner, and last longer, particularly in Spain

	2020										2021					
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
UK outbound	From 23 March: Non-essential foreign travel banned				From 10 July: test and quarantine-free travel 'corridors'				From 5 November: Non-essential foreign travel banned						From 17 May: 'green list'	
Spain inbound	From 14 March: Inbound tourism banned			21 June - 22 July: Inbound tourism allowed**	From 23 July: Inbound tourism banned											Inbound tourism for vaccinated or tested European travellers?
Greece inbound	From 23 March: Inbound tourism banned			From 15 June: Inbound tourism allowed**					From 6 November: Inbound tourism banned						From 14 May: Inbound tourism open for vaccinated or tested travellers	

Source: UK, Spain and Greece foreign ministries. *The travel corridor policy, introduced 10 July 2020, initially included over 50 countries, such as Germany, France, Spain and Italy. But the list was shortened over time. Notably, Spain was removed as soon as 25 July, while many other countries were removed towards September and October, including Italy on 15 October.
**Quarantine free, but country-based restrictions or testing requirements applied

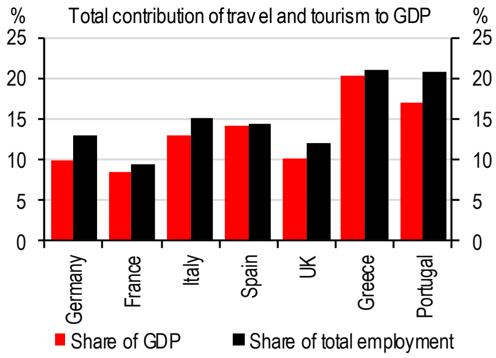
What's at stake?

Tourism is crucial for Southern Europe…

Greece, Portugal and Spain are highly dependent on foreign tourism

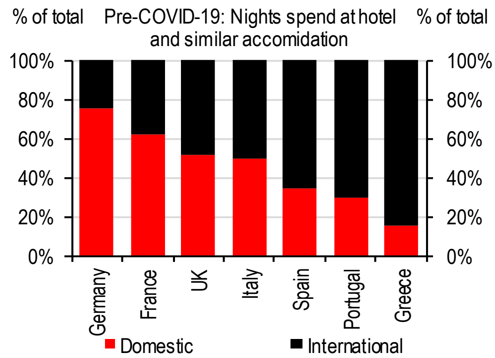
Perhaps unsurprisingly, tourism matters most to the economies of Southern Europe (Chart 4). Of the countries covered in this report – the eurozone big 4, Greece, Portugal and the UK – tourism in Greece and Portugal accounts for the biggest share of GDP (c.20%) according to the World Travel and Tourism Council (WTTC) taking into account also the spill-over effects to the domestic economy in terms of investment, consumption etc. Those two countries are also the most dependent on foreign arrivals, followed by Spain (Chart 5). Italian tourism is about half domestic and about half international, while the economies of Northern Europe depend more on domestic travellers.

4. Tourism accounts for 20% of the economy in Greece and Portugal...



Source: World Travel & Tourism Council

5. …which are also highly dependent on foreign arrivals



Source: Eurostat, HSBC

…and it depends on summer tourism from the North

Germany and the UK are the most important sources of tourism demand

Tourism in Southern Europe is crucially dependent on demand from Northern Europe. In all the tourist-dependent economies covered in this report, the UK and Germany make up two of the top three sources of tourist arrivals (Chart 6).

6. Germany and the UK tend to make up the largest share of tourist arrivals

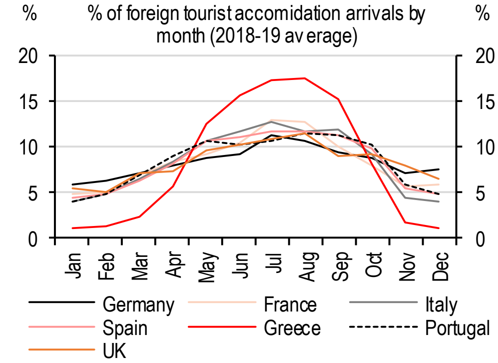
	Germany	France	Italy	Spain	UK	Greece	Portugal
1	Netherl. (12%)	**Germany (6%)**	**Germany (15%)**	**UK (15%)**	US (10%)	**Germany (13%)**	Spain (14%)
2	Switzerland (9%)	**UK (6%)**	France (8%)	**Germany (9%)**	France (10%)	Bulgaria (9%)	**UK (13%)**
3	US (8%)	Belgium (5%)	**UK (6%)**	France (9%)	**Germany (9%)**	**UK (9%)**	**Germany (10%)**
4	**UK (6%)**	Italy (3%)	Austria (4%)	Nordics (5%)	Ireland (7%)	Italy (5%)	France (10%)
5	Austria 5%)	Switzerland (3%)	US (4%)	Italy (4%)	Spain (7%)	France (5%)	Brazil (7%

Source: OECD, World Travel & Tourism Council.

Missing out on summer tourists would take a huge bite out of tourism revenue

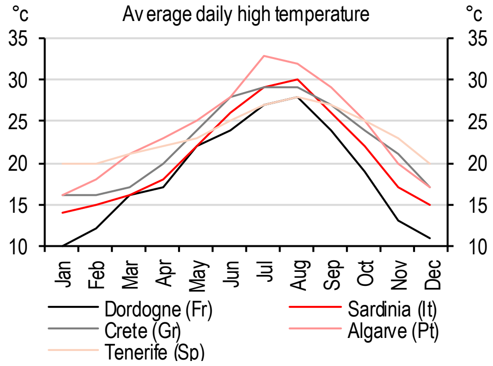
For most countries, the tourism season starts with Easter, even though unsurprisingly, the bulk of tourists tend to come in July and August, with Greece showing the most seasonality (Chart 7). So, understandably, the race is on to get tourism moving this summer.

7. Tourism tends to peak in mid-summer, unsurprisingly…



Source: Eurostat, HSBC.

8. How many tourists will wait until October?



Source: holiday-weather.com

How much of a recovery can we expect?

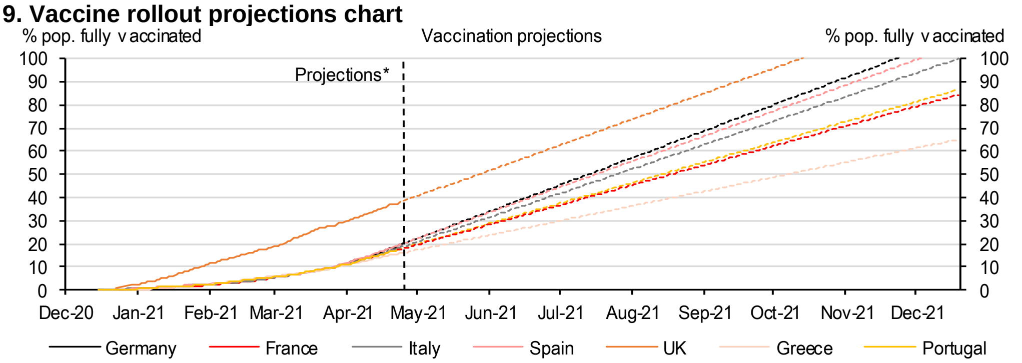
When thinking about the recovery, it makes sense to think about the factors that will drive a rise in tourism flows from Northern Europe, to Southern Europe. In this section, we outline five.

Little over half of would-be tourists will be fully vaccinated by July

1. The vaccine rollout (in Northern Europe)

Because upcoming rules are set to offer virtually unfettered travel freedoms to vaccinated travellers, the extent of the vaccine rollout by this summer will be important. The rollouts that really matter are those taking place in the countries where the most tourists come from – the UK and Germany (Chart 9).

9. Vaccine rollout projections chart



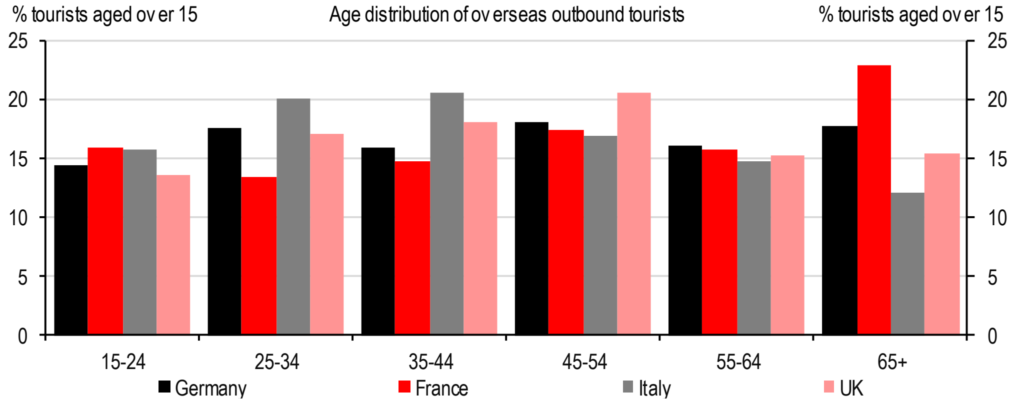
Source: Our World in Data, HSBC calculations. *At current pace based on last two weeks. Full vaccinated = 2 doses

Testing requirements for a UK family could rise above GBP1,000, but lower prices may be coming

2. Testing costs (for the unvaccinated)

The age profile of outbound travellers is fairly evenly distributed across generations (Chart 10). So at the aggregate level, this year will see a significant number of adult tourists requiring tests. And, of course, children will need to be tested too, as would tourists returning to the UK, under 'green list' rules. So if a large number of tourists will still need to be tested, then the cost and inconvenience of testing could be a barrier to the tourism recovery.

10. …but younger generations are also key sources of demand



Source: Eurostat, HSBC

3. The COVID-19 caseload (in Southern Europe)

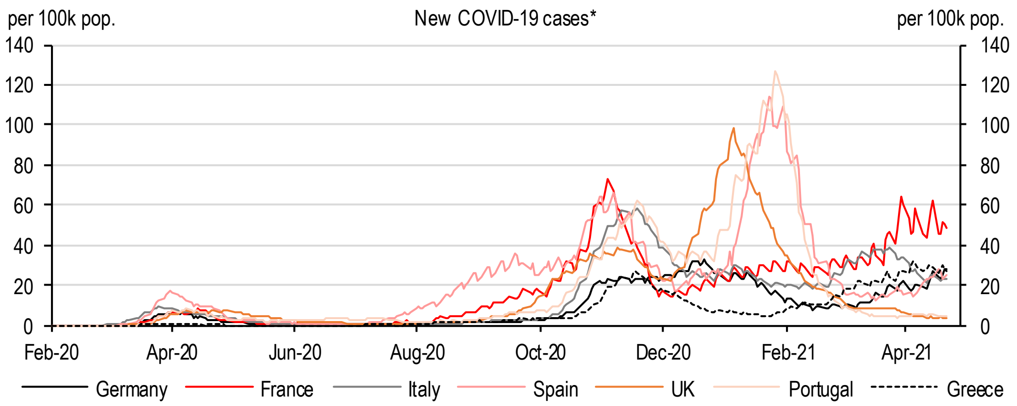
Of course, the broader COVID-19 caseload will be a key determinant of the tourist season. Another wave of the disease could scupper current border reopening plans entirely (e.g. keeping countries off the UK's green list). Meanwhile, more modest variations between countries may drive variations in demand, particularly if they lead to inconvenient social distancing measures in destination countries.

Here, the good news is that case numbers appear to have peaked in most of Europe (Chart 11) and restrictions are easing in some countries. Italian Prime Minister Mario Draghi said at the G20 tourism meeting that Italy will be "open to foreign tourists" from mid-May (Reuters, 4 May).

Ongoing restrictions, or the risk of them, may discourage many holidaymakers

But the reality might be somewhat different, and economic reopening is still in its early stages. For example, although the French government has announced a roadmap for easing restrictions, a national curfew and capacity limits for services providers are still set to be in place until 30 June. Italy and some regions in Spain also still have a nightly curfew in place. A degree of social distancing could well be maintained across Europe throughout the summer. For many would-be holidaymakers, these restrictions, or the uncertainty over whether much of an easing will actually take place, may be enough to discourage any holiday plans.

11. COVID-19 cases may have peaked in most of Europe



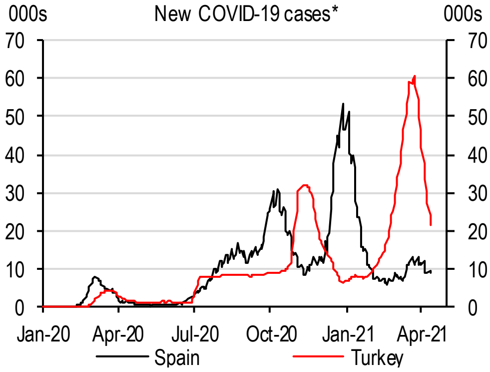
Source: Refinitiv Datastream, HSBC

Europe is a much more viable holiday destination than Turkey right now

4. The situation in rival destinations

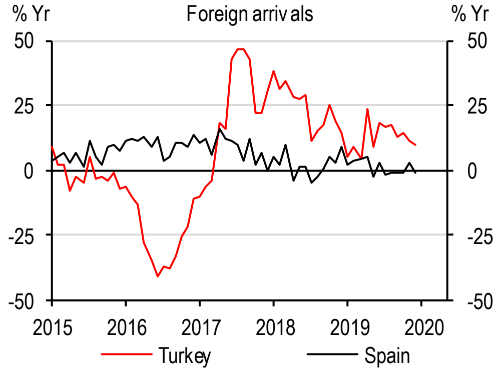
Events outside Europe may also play a role. In fact, if the implementation of the new travel rules goes smoothly, and as long as the COVID-19 situation continues improving, European destinations may become more attractive than typically popular non-European destinations, such as Turkey.

12. Spain may benefit from fewer trips to Turkey, where cases are higher…



Source: Refinitiv Datastream, HSBC

13. …at it may have done in 2016 due to geo-political instability in the Middle East



Source: INE, Ceic, HSBC

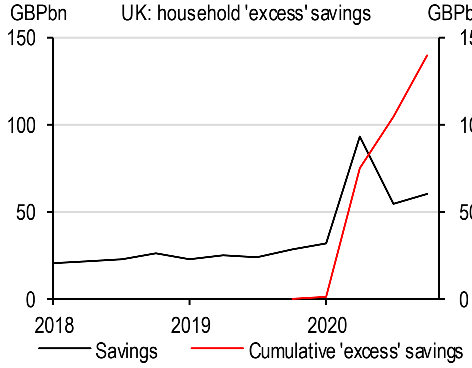
5. Pent-up demand

Finally, and looking beyond just this summer, pent-up demand on the part of households could be a reason for optimism. Households across Europe, particularly wealthier ones, have significantly increased their savings rates. In the UK, household savings in 2020 were around GBP140bn higher than they were in 2019 (Chart 14).

Households have plenty of cash, in aggregate, to spend on holidays

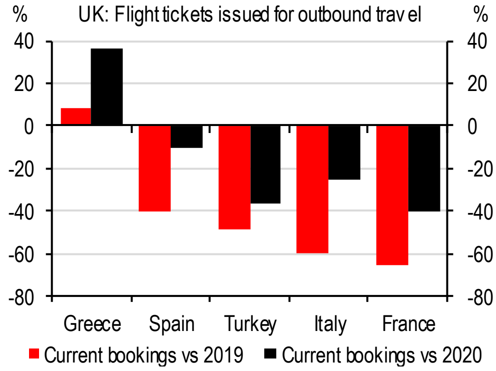
And there may be early signs that UK households are itching to spend some cash on a foreign holiday. Indeed, UK hotel bookings in Greece even surged above 2019 levels soon after Greece announced last month that, on 14 May, it would open its borders to vaccinated travellers (Chart 16). This is particularly encouraging, even though Greece is not (yet) on the UK's green list. Regarding Portugal, which is on the green list, Ryanair has announced an addition of 245k seats from the UK to Portugal since 7 May (Bloomberg, 12 May).

14. UK households have accumulated significant 'excess' savings…



Source: Refinitiv Datastream, HSBC

15. …and appear to have responded to early optimism regarding Greece



Source: FT, ForwardKeys, HSBC. Note: Data as at 29 April 2021

Macro implications

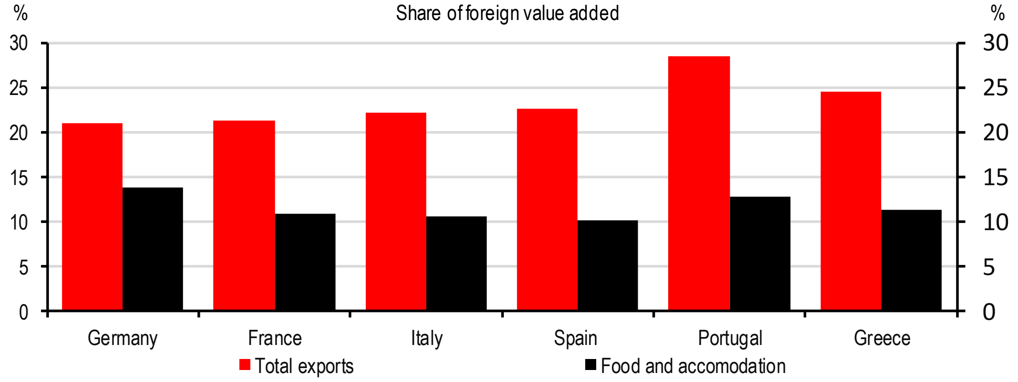
A balance of payments analysis

Clearly, the re-opening season could give a significant boost to the economic recovery in periphery economies. In this section we attempt to estimate the extent of that, and possible upside risks from the prospects of a relatively earlier and broader re-opening.

The tourism sector has a relatively low import content

In order to do that, we focus on a relatively narrow definition of tourism, the travel component of the current account, which includes transports, food, accommodation, etc. Travel services exports alone accounted for almost 10% of GDP in Greece in 2019, 8.5% in Portugal and 5.6% in Spain (less so for Italy, 2.4%). So it's still very meaningful for many countries even though it does not take into account of some of the spill-over effects mentioned above in terms of domestic consumption and investment. Tourism is also a relatively low-import content industry. Based on OECD data, we estimate that the import-component of the 'food and accommodation' industry is about half that of the average exports (Chart 16). That means that countries relying on tourism suffered significantly from an export perspective from the pandemic, while getting limited relief from the related reduction of imports.

16. Tourism is a relatively low import-intensity industry

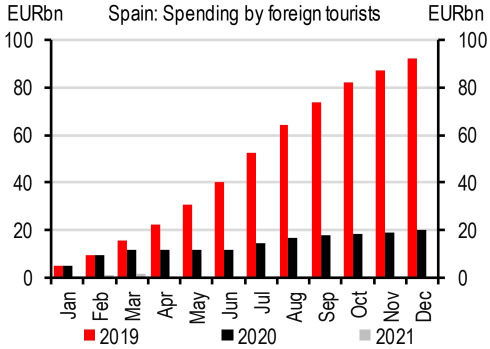


Source: HSBC calculations based on OECD.

Our base scenario

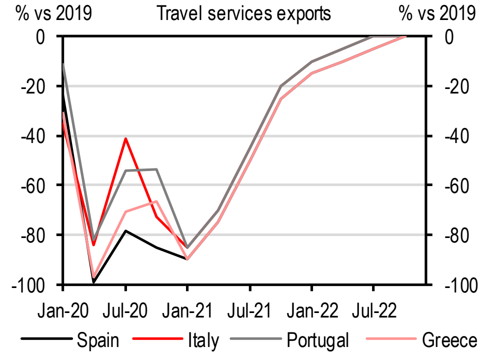
Chart 16 shows travel services exports last year relative to pre-crisis levels. Spain and Greece were hit hardest while Italy and Portugal managed to stage a tentative recovery in the third quarter (and Portugal even in the fourth quarter). Spain had an almost lost year for tourism, alongside Greece, while Italy might have benefitted from the relative proximity to Germany allowing tourists to avoid air travel, particularly during the summer, when the occupancy rate of hotels topped the rest of Europe. For the year as a whole, Spain and Greece saw their travel services exports drop around 75% from 2019, while Italy and Portugal around 60%.

17. So far this year spending by foreign tourists in Spain has been basically zero



Source: Spanish Statistical Institute, Egatur, HSBC.

18. We assume a steady recovery from Q2 until the end of next year



Source: HSBC calculations based on WTO, OECD.

Q1 2021 was already lost from a tourism perspective

This year, spending by foreign tourists in Spain was only around EUR1bn in Spain this March, a far cry from EUR15bn in 2019 and even almost EUR12bn last year (Chart 17). So even if the prospects for the tourism industry look brighter going forward, there is still a long way to catch up even to reach last year's levels.

We see foreign tourist arrivals at 50% of pre-crisis levels in Q3 21, rising to 100% by end-22

Our baseline is for a gradual recovery of foreign tourism starting from June, with the level of foreign tourists reaching around 50% of pre-crisis levels in Q3. We see a steady recovery after that, with a return to pre-crisis levels by the end of 2022 (Chart 18). This would imply travel services still down between 50-60% this year from pre-crisis levels, and 5-10% next year.

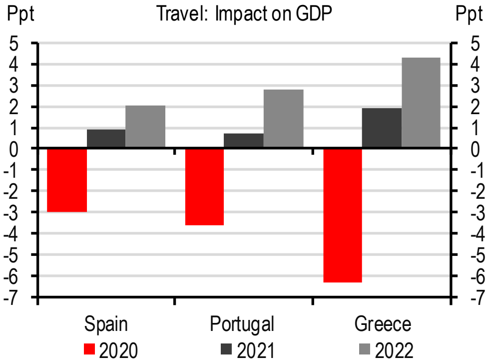
After a 3ppt drag last year, we see tourism exports boosting Spain's GDP growth by 1ppt this year

So what does that mean from a GDP perspective? From a net trade perspective alone, last year the tourism sector subtracted 6ppts from Greece's GDP growth last year. In Portugal, it reduced GDP growth by 3.5ppts and in Spain by 3ppts. In our central case, these countries should see a significant tourism boost to GDP growth this year, of around 1ppt Spain and Portugal, and 2ppts Greece. As the tourism sector recovers further next year, the positive impact on GDP growth should rise, between 2ppts for Spain to up to 4ppts in Greece. This explains why our GDP forecasts see higher growth rates in 2022 than this year for tourism-dependent economies.

The net tourism impact on Italy and France is likely to be smaller

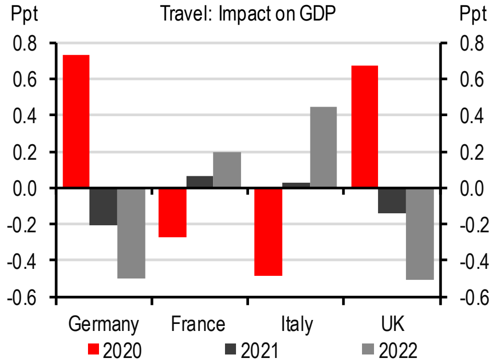
For the larger European economies, tourism tends to generate more two-way flows, with tourists coming into the country and residents visiting foreign countries. Italy and France tend to be have more foreign visitors coming into the country than the residents travelling abroad, hence last year's restrictions hurt travel exports more than imports, leading to an overall drag on GDP growth worth 0.5ppts and 0.3ppts, respectively (Chart 19). For Germany and the UK, which are the main source of tourists for the rest of the continent, last year's restrictions were a net positive from a narrow balance of payment perspective, pushing up growth by around 0.7ppt, based on our estimates (Chart 20). As travel restrictions are lifted, this trend should reverse, with tourism boosting growth in Italy and France (of up to 0.5ppt in Italy next year) and subtracting from growth in Germany and the UK (by about 0.2ppt this year and 0.5ppt next).

19. The net trade drag from tourism has been huge for some countries...



Source: HSBC calculations based on WTO, OECD.

20. ...while the UK and Germany might have benefitted from staycations last year



Source: HSBC calculations based on WTO, OECD.

Not a zero-sum game

As mentioned, looking at tourism from a current account perspective alone only allows for a narrow assessment of the impact from the sector on growth, disregarding domestic spill-over effects in terms of consumption and investment. Hence, our estimates are likely to be a lower bound in terms of the negative impact of travel restrictions on economic activity.

Staycation effects only partially offset the impact of restrictions…

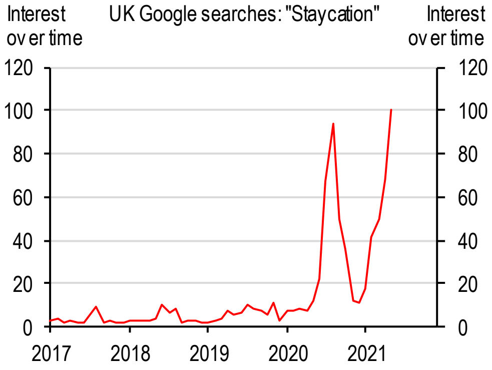
One should also not come to the conclusion that tourism is a zero-sum game, benefitting the countries that are net-recipient of foreign tourists and hurting those who are net-contributors. In reality, last year's restrictions led to an overall reduction of the 'size of the pie'. The consumption of many tourism-related items (travel, food, accommodation, etc.) shrunk which meant that there was a net negative impact overall from the restrictions on economic activity through the tourism sector. In other words, staycation effects only partially offset the impact on tourism from restrictions. So lifting the restrictions might allow a release of some of the pent-up demand and reduce some of the excess savings, which might boost GDP across countries.

Having said that, it is clear that in relative terms countries such as Germany and the UK fared relatively better, also thanks to more people deciding to have holidays at home rather than abroad. And in Italy, staycation effects are likely to have been a big factor explaining the relatively high occupancy rate in the summer despite the travel restrictions.

…but the international recovery should mitigate staycation effects on activity and inflation this year

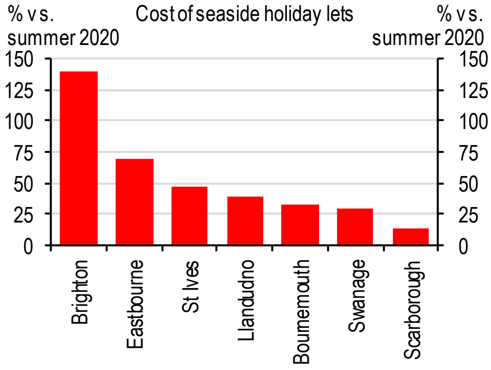
Staycation effects have not gone away yet. In the UK, Google searches for 'staycation' remain elevated (Chart 21), while the price of holiday lets is up sharply on a year ago (Chart 22) as under-capacity in Southern Europe is finding a counterpart in over-capacity in Northern Europe. But the faster the international tourism recovery, the quicker price pressures may unwind.

21. 'Staycation' is still a very popular search on Google



Source: Google Trends, HSBC. Note: Value of 100 is the peak popularity over time.

22. Rental prices in some popular holiday destinations in the UK have surged



Source: Which? Sky News (5 March 2021), HSBC

Upside risks for this year

So in our baseline scenario the tourism sector will be an important contributor to growth for many periphery economies. But in light of the latest pick-up in vaccination rates, and optimism by European leaders about the prospects for lifting travel restrictions sooner than initially expected and being able to have a close-to-normal tourism season this summer, there might also be some upside risks to growth. The upside risk to Portugal might be most significant, given its inclusion on the UK's initial green list.

A 70%, rather than a 50%, tourism recovery in the summer could add 1.2ppt to growth in Greece this year

For example, if foreign arrivals reverted to 70% of pre-crisis levels this summer (rather than 50%) and the progress remained steady until reverting to pre-crisis levels already by Q2 next year, there would be positive impact in terms of growth. We estimate it could add 0.1ppt to GDP growth in Italy, 0.4ppt in Spain, 0.7pt in Portugal and up to 1.2ppt to GDP growth in Greece. And this is just from a net trade perspective, which suggest the overall improvement in terms of GDP growth is likely to be bigger. Of course, though, in this case higher growth now would translate into lower growth later on, as next year the relative improvement would be smaller – unless the overall level of tourists were to increase above the pre-crisis levels (Chart 23).

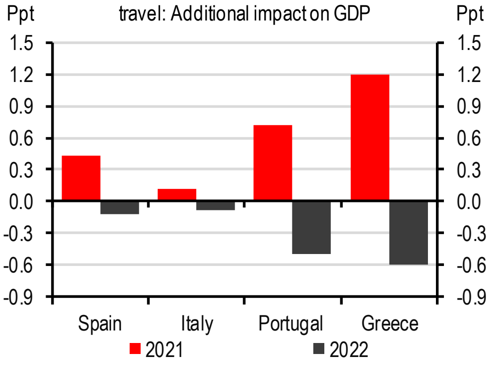
A quicker tourism recovery might mitigate employment scarring effects…

But there might be some net positives, though. For one, the risk of economic scarring could be lower. For example, in Spain there are still around 300k workers in the restaurant and accommodation sector in short-time work compensation schemes, about half the total (Chart 24). A faster recovery could allow these people to be re-integrated quickly into the labour market, preventing a possible deterioration of their skills and also reducing the fiscal outlays for the government (in terms of either short-time work compensation schemes or unemployment benefits) which in turn could also reduce some of the consolidation challenges coming out of the crisis.

…while providing investment opportunities for the EU recovery fund

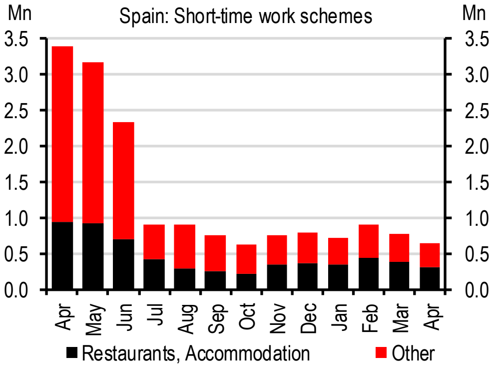
A quicker recovery might also improve the investment opportunities in the sector, just at the time when there will be a lot of money available from the EUR750bn Next Generation EU fund to be deployed for the sector. Indeed, many of the countries' Recovery and Resilience Plans (RRPs) recently submitted by the countries to the European Commission to be reviewed have the tourism sector as one of the top recipient of funds, having been hit hardest by the crisis. In turn, this could provide a further boost to growth in the near term, but also lift growth potential.

23. A quicker-then-expected lifting of restrictions could boost near term growth



Source: HSBC calculations based on WTO, OECD.

24. Restaurants and hotels still account for about half of short-time workers in Spain



Source: Spanish Ministry of Labour, HSBC.

Conclusion

Gradually heading back to the beach

The improving epidemiological situation, and incoming new travel rules, mean that Europeans – particularly those who will be vaccinated and those that are willing to pay for tests – should enjoy a better tourism season this year than last year. But testing costs and broader uncertainties still mean that the recovery will continue to act as a headwind to the recovery.

That is the basis for our central scenario that international tourism flows rise to 40-50% of pre-crisis levels this summer (from 25-40% last year depending on the country), then staging a full recovery by 2022. This tourism recovery should boost growth in Southern Europe by 1-2ppts this year, then make a bigger contribution to growth next year.

Clearly, there are huge uncertainties around these assumptions. If anything, given the recent commitment by European leaders to reopen borders as soon as possible and ease travel restrictions, risks may be tilted to the upside. And if upside risks crystallise, that would imply stronger growth this year and less economic scarring. For so many reasons, it would be good to get back to the beach as soon as possible.

Disclosure appendix

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